



VIA FACSIMILE (704) 799-9251

September 8, 2005

Dr. William G. Gray, Manager/Member  
The Village at Lake Norman, LLC  
123 Wilton Place  
Mooresville, NC 28117

Re: Proposal to Purchase Real Estate Assets Consisting of: 1 Long-Term Care facility and 16 additional acres of land (The Village at Lake Norman) located in Mooresville, NC (the "Property")

Dear Dr. Gray:

Please find below the terms of this Letter of Intent under which Chain Bridge Capital LLC ("CBC") would agree in principle to purchase the Property. The specific terms of the proposed transaction shall be effective only upon execution of a written agreement of purchase and sale (the "Purchase Agreement").

Buyer: CBC or its designated affiliate or assignee.

Seller: The Villages at Lake Norman, LLC and Lake Norman Pavilion, LLC

Purchase Price: \$4,500,000 cash payable by cash or certified wire transfer at Closing plus Buyer will assume debt existing on the date of Closing. The parties understand and agree that Seller presently is constructing a material addition to the Property. The actual cost of such addition, whether drawn on the construction financing at Closing or incurred but not yet drawn on the construction loan, shall be added to the \$4,500,000.00 cash portion of the Purchase Price.

Good Faith

Deposit: \$100,000 (the "Deposit") shall be deposited in an interest-bearing account with an Escrow Agent mutually agreeable to the parties to this Letter of Intent (the "Escrow Agent") within three (3) business days after full execution of this proposal. The Deposit and any interest thereon shall be fully refundable to Buyer until the end of

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2 Wisconsin Circle, Suite 540, Chevy Chase, Maryland 20815  
Tel: 301.941.1660 • Fax: 301.941.1661 • www.chainbridgecapital.com



RHI0304

the Due Diligence Period (hereinafter defined) or shall, along with the additional Deposit and any interest thereon, be applied towards the Purchase Price at the time of Closing. In the event the purchase of the Property does not occur for any reason, the party entitled to the Deposit shall be entitled to any interest earned thereon.

Due Diligence:

The Purchase Agreement shall provide that CBC's offer to purchase the Property is contingent upon satisfaction by CBC, in its sole discretion, of its Due Diligence concerning the Property including, but not limited to, examination of all books of account and records related to the Property, investigations with regard to zoning, building code and other legal requirements, and obtaining such third-party reports or studies as it deems necessary ("Due Diligence"). The Purchase Agreement shall provide that CBC shall have a forty-five (45) day period following execution of the Purchase Agreement in which to perform its Due Diligence (the "Due Diligence Period"). At the conclusion of the Due Diligence Period, unless CBC notifies Seller of its intent not to proceed, CBC shall make an additional \$100,000 Deposit with the Escrow Agent following the conclusion of the Due Diligence Period, which shall be applied towards the Purchase Price for the Property at the time of Closing, together with any interest earned thereon.

Closing:

Closing of the purchase and sale of the Property shall take place not more than sixty (60) days following the expiration of the Due Diligence Period (the "Closing Date") described above, unless otherwise agreed by Buyer and Seller.

Copies of Third  
Party Reports:  
Leases, Etc.:

Within three (3) business days after full execution of the Purchase Agreement, Seller shall provide to CBC, to the extent available, all current third party reports of any kind or nature in its possession relating to the Property and not previously supplied to buyer (e.g., including, but not limited to, appraisals, surveys, engineering or architectural studies, environmental and real property surveys), income and expense statements for the Property for the past three (3) years, audited financial statements for the Property (if available) for the past three (3) years, complete copies of all management agreements and licenses to operate the Property as long term care facilities in North Carolina, and service contracts related to the Property. During the Due Diligence Period, Seller shall provide to buyer any other materials relating to the Property that may be reasonably requested by Buyer. All notices in connection with this proposed transaction that are required to be

provided to Buyer shall be addressed to the attention of Sean P. Murphy.

Expiration: This proposal shall expire if a Purchase Agreement is not fully executed within two (2) weeks of execution of this Letter of Intent. Buyer shall use best efforts to forward to Seller a draft Purchase Agreement within five (5) business days of execution of this Letter of Intent.

Broker: Seller has agreed to pay a commission of \$270,000.00 to The Interstate Companies of America, Inc. at Closing. Buyer and Seller represent to each other that neither has any real estate commission obligations other than to Interstate. Each agrees to indemnify the other for any real estate commission claims made in violation of the foregoing sentences.

Exclusivity: Seller agrees that it will not solicit, entertain or enter into any contracts, letters of intent, proposals or negotiations with any third party with respect to an offer to purchase the Property following execution of this Letter of Intent for a period of fifteen (15) days of Seller's execution of this Letter of Intent (the "Exclusivity Period"). Following the Exclusivity Period, Seller shall be permitted to entertain and execute backup agreements.

Prorations: Revenues, expenses and other items shall be prorated in the customary manner. Real estate Taxes shall be prorated on an accrual basis regardless of the assessment year for which the taxes apply.

Closing Costs: Seller shall be responsible for recordation and transfer taxes. Buyer shall be responsible for Title Insurance fees. Each party shall be responsible for its own legal fees.

Seller Obligations: Seller and Buyer shall agree to the following conditions:

1. The Property will not participate in the Medicaid or Medicare programs.
2. The parties acknowledge and agree that the Property is involved in ongoing construction. During the Due Diligence Period, Seller will supply information, plans, etc. to Buyer regarding such construction.
3. Any service contracts or facility management agreements, as well as modifications, extensions or terminations relating to such service contracts or facility management agreements signed after execution of this Letter of Intent will be subject to review by

ber 9, 2005.

Sincerely,

BUYER:

Chain Bridge Capital LLC



By: Robert A. Sweet  
Its: Vice President

SELLER:

[Insert Seller Name]

*Office of Lake Norman LLC of  
Lake Norman Pavilion LLC  
elder living services inc*

Accepted by:

Name:

Title:

*William J. J. J.*  
*CEO/Manager*

Date:

*9/14/05*

cc: Sean P. Murphy  
Daniel L. Willison  
Edward P. Nordberg, Jr.

RHI0308

**FOSTER REAL ESTATE APPRAISERS, INC.**

**MICKEY FOSTER, MAI, CCIM**

869 Sand Hill Road  
Asheville, North Carolina 28806  
Phone: (828) 670-8828  
Fax: (828) 670-8809  
mickey@fosterappraisers.com

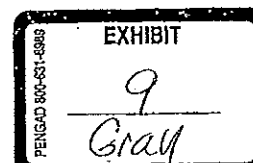
**LIMITED, SUMMARY APPRAISAL  
RICHMOND HILL INN PROPERTY**

Located at:

RICHMOND HILL DRIVE  
ASHEVILLE, NORTH CAROLINA, BUNCOMBE COUNTY



Richmond Hill Inn 5/05



RHI0309

*Richmond Hill Inn, Asheville, North Carolina*

**PHOTOGRAPHS**



**Mansion**



**Gardens & Pavillon**



**Dining Room**



**Falls & Fish Pond**



**Cottages**



**Typical Bathroom**

869 Sand Hill Road  
Asheville, North Carolina 28806  
828-670-8828 voice  
828-670-8829 fax  
mickey@fosterappraisers.com

**Foster Real Estate Appraisers, Inc.**  
Commercial & Industrial Real Estate Appraisers & Brokers

September 1, 2005

Mr. N. Trent Bradshaw  
First Carolina Bank  
171 North Winstead Ave.  
PO Box 8469  
Rocky Mount, North Carolina 27804

Re: Appraisal of Richmond Hill Inn, Asheville, North Carolina.

Dear Mr. Bradshaw:

As requested, we have examined and appraised the real property described above. The appraisal has been prepared for the purpose of estimating the market value as of August 8, 2005.

As a result of our investigation, we have estimated the market value of the fee simple estate of the subject property, subject to all the assumptions and limitations as specifically provided within the narrative report, to be:

Richmond Hill Inn  
Surplus Land 41.15 ac.  
Two Residences

\$8,100,000  
\$3,550,000  
\$350,000

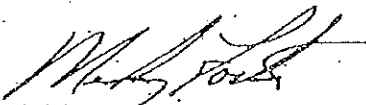
*- 3 Buildings + land*  
*across*  
*the street*

The following report presents the data and analysis along with other material on which the estimate of value was predicated. The above market value has taken into consideration the Uniform Standards of Professional Appraisal Practice, and FIRREA Regulation 12CFR 34.

The reader should be aware that the Richmond Hill Inn is presently not being operated for profit at this time and the appraiser has provided pro-forma income and expense projections that consider a realistic and for profit mode of operation. The Richmond Hill Inn is a sound property with surplus land to be developed with other profit centers within the compound. The Inn is a diamond in the rough with great up-side potential.

It was a pleasure preparing this appraisal for you. We would be pleased to hear from you if we may be of further assistance in the interpretation and application of the findings and opinions.

Foster Real Estate Appraisers, Inc.

  
Mickey Foster, MAI, CCIM

Mickey Foster, MAI, CCIM  
N. C. State Certified Appraiser #A-1071  
S. C. State Certified Appraiser #CQ-1792



RHI0311



APPRAISAL REPORT SUMMARY

Property Name	Richmond Hill Inn
	Surplus Land 41.51 acres
Property Type	Bed & Breakfast
Property Street	Richmond Hill
Property City	Asheville
Property County	Buncombe
Property State	North Carolina
Appraisal Date	August 8, 2005
Property Rights Appraised	Fee Simple
Area of Site	54.515 acres
Year Built	1889
Current Zoning	Resort & RM-6
Highest and Best Use as Vacant	Bed & Breakfast
Highest and Best Use as Improved	Bed & Breakfast
Property Value Estimate	
Richmond Hill Inn	\$8,100,000
Surplus Land 41.15 ac.	\$3,550,000
Two Residences	\$350,000
Estimated Exposure Time	3 to 6 months

RHI0312

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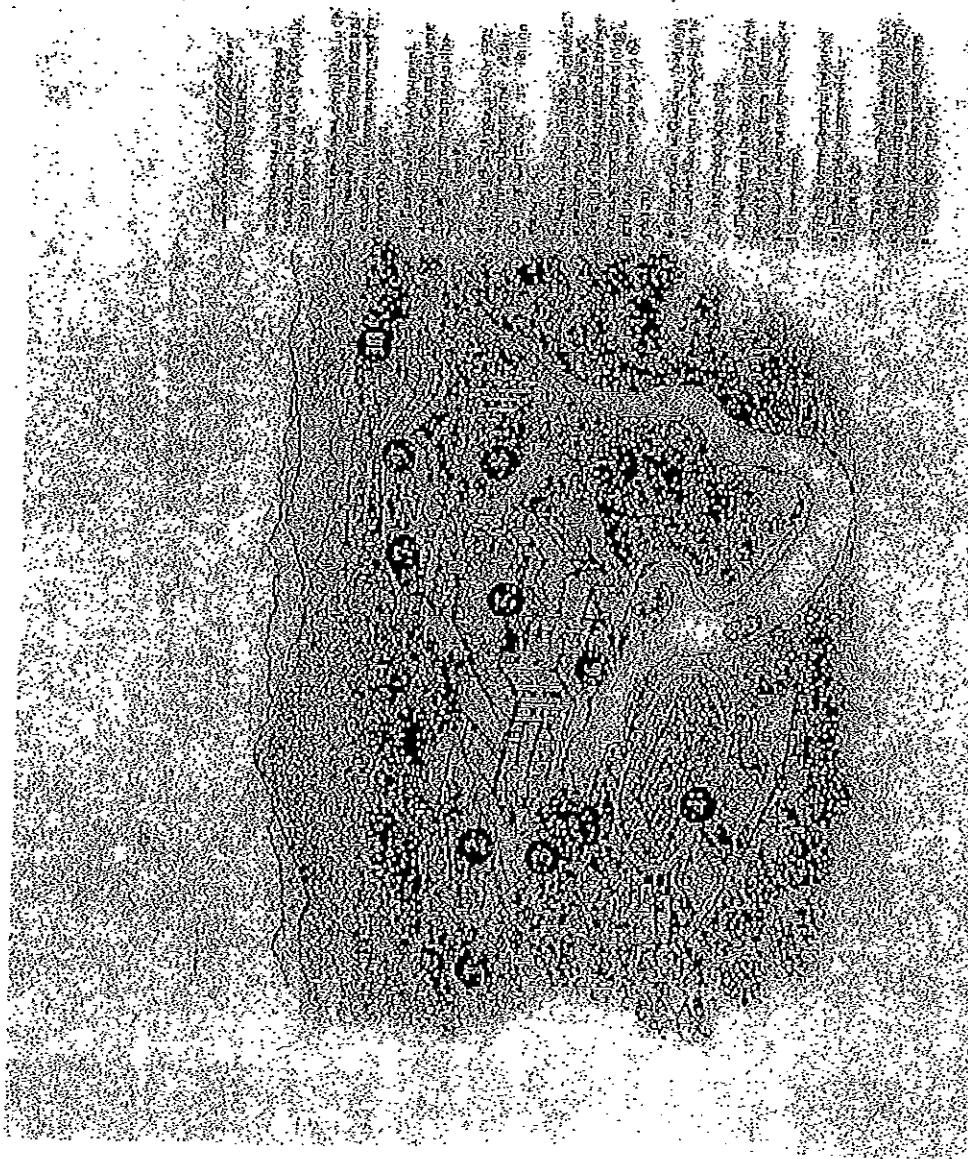
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**DESCRIPTIONS, ANALYSES AND CONCLUSIONS**

RHI0314

RICHMOND HILL INN - LAYOUT



*Richmond Hill Inn, Asheville, North Carolina*

#### IDENTIFICATION OF THE SUBJECT PROPERTY

The property being appraised is an existing bed and breakfast known as The Richmond Hill Inn. The Inn is a Victorian Mansion restored to its original condition. The facility consists of the Mansion, the Croquet Cottages, and the Garden Pavilion for a total of 37 rooms and restaurant. In the Mansion is Gabrielle's Restaurant which is a AAA Four Diamond Award winner. The Mansion was built in 1889 for the private residence of James G. Hill. The Inn's restaurant gets its name from Mr. Hill's wife, Gabrielle. The Inn was later moved to its present location by the Preservation Society and is presently owned by Dr. & Mrs. Michael. The Michael's have renovated and added to the facility in excess cost of \$3,000,000. The Mansion was opened to the public as an Inn in 1989. Two additions were added by the architect, Jim Samsel. In addition to the site where the Inn is place, there is approximately 41 acres of excess land in the property. The subject's address is 87 Richmond Hill Drive, Asheville, North Carolina and is a four-diamond facility.

#### ASSIGNMENT TYPE & APPRAISAL REPORT

This appraisal report is prepared to conform to the requirements of a Limited, Summary, Appraisal. The limited appraisal is defined by the Uniform Standards of Professional Appraisal Practice (USPAP), 1994 ed., as:

limited appraisal: the act or process of estimating of value or an opinion of value developed under and resulting from invoking the Departure Provision.<sup>1</sup>

The appraiser is invoking the Departure Provision and not utilizing the Cost Approach to Value in this report. This approach is not being utilized due to the age of the improvements. The improvements were built in approximately 1905 with extensive renovations and additions thereafter. The age of the improvements make it difficult to estimate the reproduction costs of the structure.

#### COMPETENCY OF THE APPRAISERS

The appraiser's qualifications and experience are included at the end of this report. This information serves as evidence of the appraiser's competence for completing this appraisal assignment in compliance with the competency provision of the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation, Washington, D.C.

The appraiser's knowledge and experience, combined with his professional qualifications, are commensurate with the complexity of this assignment. The appraiser confirms that he has previously provided appraisal and consulting expertise on this type of property.

#### AMERICANS WITH DISABILITIES ACT (ADA)

It is assumed that for the purpose of this appraisal, the improvements comply with the provisions of this legislation.

#### DATE OF VALUE ESTIMATE

An on-site inspection of the subject property was made on August 8, 2005. This property was inspected in order to obtain a valid opinion of its condition, as well as general trends in the surrounding neighborhood. This date of inspection will be utilized as the date of value estimate.

<sup>1</sup> *Standards of Professional Appraisal Practice of the Appraisal Institute, 1994 ed., Washington, D.C.: The Appraisal Foundation.*

*Richmond Hill Inn, Asheville, North Carolina*

#### PROPERTY RIGHTS APPRAISED.

The property rights being appraised in this report consist of a *fee simple* estate. Fee simple is defined by the *Dictionary of Real Estate Appraisal*, as being:

Absolute ownership unencumbered by any interest or estate subject only to the four powers of government.<sup>2</sup>

The fee simple interest includes all the rights of ownership known as the "*bundle of rights*." They consist of the use, sale, lease, exclusion from trespass, right to give the property away, and the right to refuse to exercise these rights. Through lease agreement, portions of these rights can be transferred such as in right of possession or trespass by easement. The local and federal governments also have rights in the property through the powers of taxation, eminent domain, police power, and escheat.

#### SCOPE OF THE APPRAISAL

The *scope* of the appraisal can be defined as the extent of the process of collecting, confirming, and reporting the data the appraiser has used to form an opinion of value. In collecting the data necessary to form an opinion of value regarding the subject property, the appraiser has located comparable data in the area or surrounding areas or states when required. Additionally, the appraiser has contacted other reliable appraisers, brokers and developers active in the subject market area, and other individuals considered knowledgeable in the real estate market to confirm the data used in this report. The report that follows is a complete analysis of the data collected.

#### PURPOSE OF THE APPRAISAL

The *purpose* of the appraisal is to present the data and reasoning that the appraiser has used to form the opinion of value. In stating the purpose of the appraisal, the appraiser considers: 1) the objective of the appraisal, and 2) the function of the appraisal assignment.

Objective of Appraisal	To estimate the current market value of the subject property as of the appraisal date.
Function of Appraisal	To determine market value, for security of a mortgage loan

#### MARKET VALUE DEFINED

The current definition of *Market Value*, as defined in the Uniform Standards of Professional Practice of the Appraisal Foundation, is as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider to be their best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal price for the property sold unaffected by creative or special financing or sales concession granted to anyone associated with the sale.<sup>3</sup>

<sup>2</sup> *The Dictionary of Real Estate Appraisal, 2nd ed.* Chicago: The American Institute of Real Estate Appraisal. Page 120.

*Richmond Hill Inn, Asheville, North Carolina*

#### LEGAL DESCRIPTION

The reader should refer to deed located in the Addendum for the legal description.

#### HISTORY OF OWNERSHIP

<u>Date</u>	<u>Deed Book/Page</u>	<u>Grantor</u>	<u>Grantee</u>
4/00	2268/798	Nathan Patrick McKee & wife	Richmond Hill, Inc.

We are not aware of any other sales or transactions of this property. The purchase price was not disclosed and is not applicable to today's market.

#### ZONING

The subject property is located by the City of Asheville with a current zoning of Historic District, "Resort" and "RM-6". The subject's improvements are therefore, a use permitted within the City of Asheville. See Zoning Ordinance in the Addendum.

#### ASSESSED VALUATION AND TAXES

The subject is located in Buncombe County and within the City of Asheville. As such it is subject to county, city, and city school tax rate. The 2005 tax rate for this area is \$1.32 per \$100 of assessed value. The information concerning the 2004-05 assessed valuation and taxes for the subject property was obtained from the New Hanover County Tax Assessor's Office and is listed as follows:

<u>Parcel ID No.</u>	<u>Assessment</u>	<u>Tax Rate</u>	<u>Total Taxes</u>
9639-11-66-0684	\$2,770,200	\$1.32/\$100	\$43,760
9639-07-67-2772	\$166,000		
9637-11-57-9195	\$26,400		
9637-11-56-8914	\$36,900		
9637-11-56-5603	\$24,700		
9637-11-56-6433	\$109,200		
9639-11-56-7411	\$8104,200		
9639-11-56-9159	\$19,500		
9639-11-56-5881	<u>\$58,100</u>		
Total	\$3,315,200		

*Note:* The aforementioned tax valuation is not, in any form, indicative of subject's market value.

<sup>3</sup> *Standards of Professional Appraisal Practice of the Appraisal Institute*, 1993 ed. Washington, D.C.: The Appraisal Foundation. Page 7.

*Richmond Hill Inn, Asheville, North Carolina*

#### ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following limiting conditions:

1. This appraisal report was prepared for the exclusive benefit of the lender. It may not be relied upon or used for any purpose by anyone else without written permission from Foster Real Estate Appraisers, Inc. This appraisal report contains confidential data and material to the client and to Foster Real Estate Appraisers, Inc. The appraisal report is the sole property of Foster Real Estate Appraisers, Inc.
2. The appraiser assumes no responsibility for matters which are legal in character and renders no opinion as to the title, which is assumed to be good. The property is appraised as having knowledgeable ownership and management.
3. The firm has made no survey and assumes no responsibility in connection with such matters. The information identified in this report as being furnished by others is believed to be reliable, but no responsibility for its accuracy is assumed. The construction and condition of the improvements mentioned in the body of this report is based on observation and no engineering study was made.
4. It is assumed that there are no hidden or unapparent conditions of the property, subsoil's, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover such factors.
5. The distribution of the total valuation between the land and improvements in this report applies only under the existing utilization. The separate valuations for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.
6. The appraisers are not required to give testimony or attendance in court by reason of this appraisal with reference to the property in question unless arrangements have been made previously therefore.
7. Possession of this report or a copy thereof does not carry with it the right of publication. It may not be used for any purpose by anyone other than the addressee without previous written consent of Foster Real Estate Appraisers, Inc.
8. The market value, or any other values contained in this appraisal report, cannot be used in a tax claim without prior arrangements and the written approval of the appraiser.
9. Neither all or part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval by the Foster Real Estate Appraisers, Inc., particularly as to the valuation conclusions, or any reference to the *Appraisal Institute*, or the *MAI* designation.
10. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect substances. The presence of such substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.



*Richmond Hill Inn, Asheville, North Carolina*

#### ASSUMPTIONS AND LIMITING CONDITIONS - ENVIRONMENTAL HAZARDS

A number of chemicals, gases, and substances have been declared by the EPA to be hazardous to health. Among the hazards occasionally found are:

1. Asbestos - Generally found around stream pipes or ducts from the furnace in older structures constructed prior to 1976.
2. Urea Formaldehyde - Typically found in insulation. After urea formaldehyde insulation has been installed for more than one year, there rarely is an odor, and there is serious question as to formaldehyde being a health hazard. Workers within the formaldehyde industry show no higher incidence of health hazards than in most other incidence.
3. Radon Gas - Occasionally found in basement areas or lower levels when there is inadequate crawl space ventilation. Requires special equipment for detection.
4. Fuel Oil Spills or leaks - Found most often around home heating oil tanks. Suggest removal of older inactive oil tanks.
5. Other chemicals or hazards such as motor oil, gasoline spills, pesticides, etc.

In the course of an ordinary appraisal inspection, the appraiser may occasionally observe one or more of the above items. In this case, the appraiser will notify the client and flag this information in the appraisal. However, in most cases hazardous chemicals, gases, and substances are not obvious, and are difficult to identify without special training and equipment.

The appraiser has had no special training, has no chemical or engineering background, and has no special equipment with which to identify hazardous substances. For these reasons, the appraiser does not assume responsibility for identification of hazardous substances or warrant that the property is free and clear of hazardous substances.

If there is a question as to whether or not a problem exists, a firm specializing in environmental audits should be employed.

As is the case with termite inspections, or equipment inspections, the appraiser will report any obvious problems or even if problems are suspected.

*Richmond Hill Inn, Asheville, North Carolina*

#### REGIONAL, SOCIAL, ECONOMIC, and GOVERNMENTAL DATA

The Appraisal of Real Estate<sup>4</sup> identifies four forces, which influence value. These forces are Environmental, Social, Governmental, and Economic. The dynamics and interplay of these forces impact real estate values. Thus, these four forces will serve as the foundation for the Area Analysis section. A review of each of these forces and their respective importance to the Buncombe County market will follow.

##### Environmental Considerations

Environmental considerations are natural or manmade forces that effect a geographic location. The City of Asheville, located in Buncombe County, is considered the center of the western North Carolina Mountain area, and is the largest city in the region. Buncombe County is one of the 18 counties making up the western North Carolina region. Known as the "Land of the Sky," the city was founded at base line of the Blue Ridge Mountains between Tennessee to the west, and the North Carolina piedmont region to the east.

Asheville is located at the intersection of two major interstate highways, I-26 and I-40. This intersection is notably significant providing interstate linkage to all the surrounding metropolitan areas of the southeast. Direct access to Asheville's city center is by I-240 Connector. Thus, excellent highways are provided for east-west and north-south traffic patterns.

At 2,200 feet in elevation, Asheville is located on a plateau divided by the French Broad River. It is surrounded by lush mountains, many with elevations above 5,000 feet. Asheville is the county seat of Buncombe, which covers 656 square miles. Asheville is known for its mild year-round climate, with moderate winter and summer temperatures tempered by the surrounding mountains.

Asheville is the largest city in Western North Carolina and has become the regional center for manufacturing, transportation, health care, banking, professional services and shopping. Asheville's diverse and vibrant economy offers a wide range of opportunities.

Since Asheville is the only major city in western North Carolina, it is the hub of the marketing and is the distributing center for an 18 county area. The Asheville - Hendersonville Airport is located approximately 15 miles south of Asheville on Interstate Highway 26. The airport is serviced regularly by jet and commuter airlines, which include USAir, Delta, and the supporting commuter routed for both. Greyhound/Trailways Bus System provides daily bus service to the area and the Asheville Transit Authority operates bus routes in the city. The Southern Railway also serves the area and its industries.

Buncombe County encompasses an area of approximately 659 square miles at an average elevation of 2,216 feet above sea level. The city of Asheville is situated approximately 150 miles west of Greensboro, North Carolina; 60 miles north of Greenville, South Carolina; 125 miles northwest of Charlotte, North Carolina; and about 200 miles northeast of Atlanta, Georgia. Located on a plateau divided by the French Broad River, the city of Asheville is prominently elevated to 2,340 feet above sea level, and presently comprises an area of approximately 25 square miles.

Asheville - Buncombe County recreational facilities include parks, playgrounds, community centers, swimming pools, baseball and basketball. There are four excellent golf courses within the city limits. The Smokey Mountain National Park and Blue Ridge Parkway are accessed from the Asheville area. The Biltmore Mansion is a major attraction and is located in Biltmore, NC just minutes south of Asheville. Additionally, Thomas Wolf's Birthplace is located in Asheville and his residence has been rehabilitated for public viewing. One of Asheville's primary industries is tourism and the region hosts many conventions during the summer months. Grove Park Inn has recently expanded to accommodate the largest of the area's needs as a first class hotel. Asheville's new civic center opened in 1987 with a seating capacity of 8,000. Additionally, Asheville is located adjacent to the Blue Ridge Parkway, a scenic parkway ranging approximately 250 miles from the Virginia border to Cherokee. Frequent picnic and rest areas, as well as numerous scenic overlooks characterize the parkway.

<sup>4</sup> *The Appraisal of Real Estate*, Appraisal Institute, 12<sup>th</sup> Edition.

*Richmond Hill Inn, Asheville, North Carolina*

#### **Social Considerations**

The analysis of social considerations focuses upon the population characteristics. The composition of an area's population and demographic trends provides the opportunity to evaluate future trends for products and services. These factors are key for assessing the anticipated supply and demand for particular types of real property.

There are 44 schools in the Asheville - Buncombe County area with an enrollment of over 27,000 students. The schools are fully accredited by the Southern Association of Colleges and Schools and the North Carolina Department of Education. Numerous institutes of higher education are located in the area. Some of these include The University of North Carolina - Asheville, and the Asheville and Buncombe Technical College, which are located in the city. Mars Hill College, Warren Wilson College, Montreat-Anderson College, and Western Carolina University are within commuting distance of Asheville. Additionally, there are several junior, community, and technical colleges in surrounding counties. The following county demographic profile outlines this information.

#### **Governmental Considerations**

Forces that are associated with government involve political and legal actions, which can influence property values. A five-member board of county commissioners, elected in partisan elections held every four years governs Buncombe County. A county manager acts as chief administrative officer. Asheville is the county seat of Buncombe County. The city is governed by Asheville City Council, which is made up of a mayor and six councilmen chosen in a partisan election every two years. A council-appointed city manager acts as the administrative head of Asheville and oversees the daily operations of the city.

#### **Economic Considerations**

The economy of the Asheville - Buncombe County area is based primarily on manufacturing and tourism, with support from the health care fields, electronics, service, and trade businesses. The list below identifies the largest of both manufacturing and non-manufacturing employers. The following demographic profile further identifies these elements.

#### **Summary**

The following demographic profiles detail the county trends. Overall, the climate, schools, government presence, recreational amenities, and diverse economy are considered to be favorable and contributing factors to the livability and profitability of continued growth and expansion of the Asheville - Buncombe County area. Asheville is strongly influenced by the surrounding rural setting and represents the primary urban area for the region. The Asheville - Buncombe County areas are identified as both urban and rural environments located in the Mountain Region of western North Carolina. The infrastructure, availability of labor, and support services are average for western North Carolina counties. Data suggests that the Asheville - Buncombe area should maintain a growing population level. The Asheville - Buncombe county area has shown growth over the past five years. The employment, education, and service/retail sector have helped to support the economic base.

Richmond Hill Inn, Asheville, North Carolina

Buncombe County

Trends Profile

Reporting Quarter: 3rd Quarter 2004

Contact: PRSP (919) 715-4374

Demographics

Population, July 2004	215,463	7
Population, 2000 Census	208,330	7
Population, 1990 Census	174,357	8
Percent population change, 1990-2000	18.3	20
Percent population change, NC, 1990-2000	21.4	

County Rank



Workforce & Education

Employment, September 2004	103,733	7
Unemployment, September 2004	3,223	15
Unemployment rate, September 2004	2.9	62
Unemployment rate, 2003	3.9	91
Unemployment rate, NC, September 2004	4.4	
Percent unemployed, NC, 2003	4.5	
Percent high school graduates, 2000	81.9	17
Percent high school graduates, NC, 2000	78.1	
Average SAT score, 2004	1,083	2
Average SAT score, NC, 2004	1,004	
Percent bachelor's degree or higher, 2000	25.3	15
Percent bachelor's degree or higher, NC, 2000	22.5	

Taxes, Sales & Services

Enterprise taxes/\$100 Value	\$0.5700
Gross regional rates (M & J, June 04)	\$911.2
Gross regional rates (M & J, FY 03-04)	\$3,648.1
Number of physicians, 2003	713
Population/physician ratio, 2003	302
Population/physician ratio, 2003	63
Population/dentist ratio, 2003	1,697
Per capita income, 2004	3
Per capita income, NC, 2004	170
Official County Capacity	11,558

Income, Housing & Equity

Average weekly wage per employee, 3rd quarter 2004	\$552	18
Average weekly wage per employee, 3rd quarter 2003	\$556	37
Per capita income, 1990	\$19,751	14
Per capita income, 2000	\$27,293	15
Per capita income, NC, 2000	\$27,755	
Median value of owner-occupied housing units, 2000	\$101,271	20
Median value of owner-occupied housing units, NC, 2000	\$108,300	
Median value of rental units, 2000	11.4	70
Median value of rental units, NC, 2000	12.3	

Manufacturing & Investments

Jobs in manufacturing, 2004	110
Jobs in manufacturing, 2003	0
Jobs in manufacturing, 2002	\$2,400,000
Jobs in manufacturing, 2001	19

Unemployment & Equity

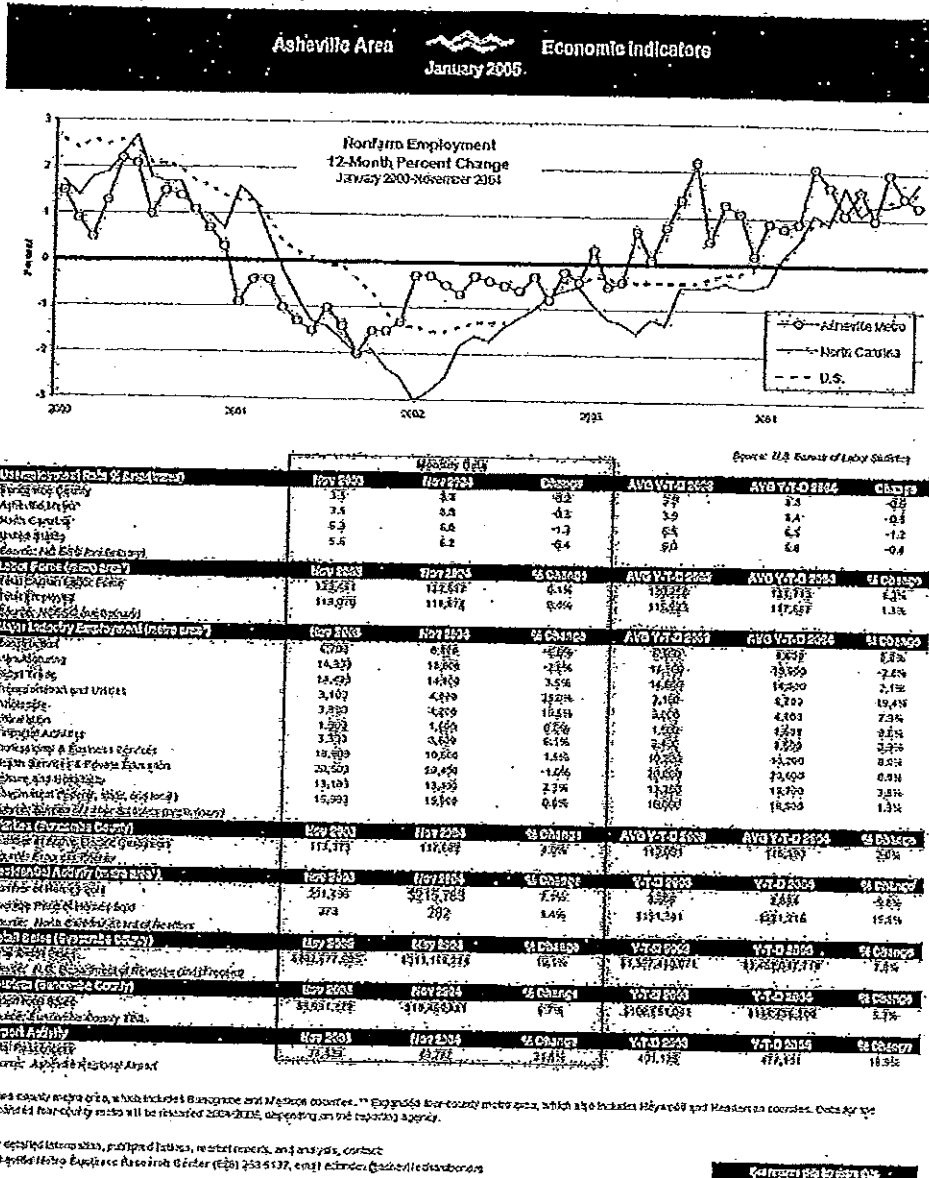
Number of unemployed persons, 2004	21
Number of unemployed persons, 2003	3
Unemployment rate, 2004	104
Unemployment rate, 2003	25

Employment and Wages by Sector (3rd Quarter 2004)

Sector	Emp.	% Total	Avg. Wkly. Wage
Health & Hospitals	15,277	10.0	\$344
Food & Beverage	14,015	14.5	\$559
Retail & Wholesale	49,230	48.4	\$331
Accommodation & Food Services	103	0.2	\$279
Manufacturing	450	0.5	\$344
Construction	5,703	5.5	\$344
Transportation	12,917	12.5	\$225
Information	3,452	3.4	\$359
Education and Health Services	13,222	12.9	\$370
Government and Warehousing	3,122	3.0	\$402
Finance	1,475	1.4	\$705
Professional and Business	2,407	2.3	\$742
Real Estate and Rental and Leasing	1,047	1.0	\$479
Arts, Entertainment and Recreation	5,227	5.1	\$354
Manufacturing and Construction	637	0.6	\$356
Administrative and Waste Services	5,433	5.3	\$377
Healthcare Services	7,107	6.9	\$552
Healthcare and Social Assistance	19,217	18.6	\$397
Arts, Entertainment and Recreation	1,445	1.4	\$383
Accommodation and Food Services	11,044	10.7	\$243
Other Services, Ex. Public Admin.	2,594	2.5	\$402
Public Administration	5,443	5.3	\$415
Unemployed	232	0.2	\$414

Buncombe		North Carolina	
Emp.	% Total	Avg. Wkly. Wage	Avg. Wkly. Wage
15,277	10.0	\$344	\$279
14,015	14.5	\$559	\$331
49,230	48.4	\$331	\$331
103	0.2	\$279	\$279
450	0.5	\$344	\$344
5,703	5.5	\$344	\$344
12,917	12.5	\$225	\$225
3,452	3.4	\$359	\$359
13,222	12.9	\$370	\$370
3,122	3.0	\$402	\$402
1,475	1.4	\$705	\$705
2,407	2.3	\$742	\$742
1,047	1.0	\$479	\$479
5,227	5.1	\$354	\$354
637	0.6	\$356	\$356
5,433	5.3	\$377	\$377
7,107	6.9	\$552	\$552
19,217	18.6	\$397	\$397
1,445	1.4	\$383	\$383
11,044	10.7	\$243	\$243
2,594	2.5	\$402	\$402
5,443	5.3	\$415	\$415
232	0.2	\$414	\$414

Richmond Hill Inn, Asheville, North Carolina



Richmond Hill Inn, Asheville, North Carolina

Asheville Area Escheat Indicators Page 2

Building Permits

Asheville Metro (Wayne County)	2007	2008	% Change	2007	2008	% Change
New Residential Permits (Total Units)	NA	501	NA	NA	5,445	NA
Value of New Residential Permits	NA	\$92,478,810	NA	NA	\$14,416,000	NA
Source: US Census Bureau						

The Four-County Asheville Metro includes Building Permits Agencies Listed Below:

City of Asheville	2007	2008	% Change	2007	2008	% Change
New Residential Permits (Total Units)	42,178,728	59,715,557	41%	136,872,105	155,452,733	14%
Value of New Residential Permits	\$1,051,493	\$11,879,704	1128%	\$12,762,445	\$17,171,523	43%
New Residential Permits (Total Units)	21	67	219%	331	648	96%
Value of New Residential Permits	\$2,932,271	\$9,609,118	328%	\$73,234,175	\$102,715,173	41%
Source: City of Asheville, US Census Bureau						

Town of Black Mountain	2007	2008	% Change	2007	2008	% Change
New Residential Permits (Total Units)	NA	4	NA	NA	3	NA
Value of New Residential Permits	NA	\$354,150	NA	NA	\$1,181,850	NA
Source: US Census Bureau						

Wayne County	2007	2008	% Change	2007	2008	% Change
New Residential Permits	1	4	300%	87	177	103%
Value of New Residential Permits	\$1,311,374	\$4,414,828	336%	\$15,319,706	\$20,180,703	32%
Value of New Residential Permits	\$7,500,000	\$11,700,000	56%	\$7,233,431	\$10,416,119	44%
New Residential Permits (Total Units)	121	111	-8%	117	103	-12%
Value of New Residential Permits	\$10,233,453	\$16,818,112	66%	\$10,416,119	\$14,416,119	38%
New Residential Permits	35	33	-6%	421	417	-1%
Value of New Residential Permits	\$1,238,341	\$454,418	-63%	\$15,160,495	\$10,816,416	-29%
Source: US Census Bureau						

Haywood County	2007	2008	% Change	2007	2008	% Change
New Residential Permits (Total Units)	NA	NA	NA	NA	NA	NA
Value of New Residential Permits	NA	NA	NA	NA	NA	NA
Source: US Census Bureau						

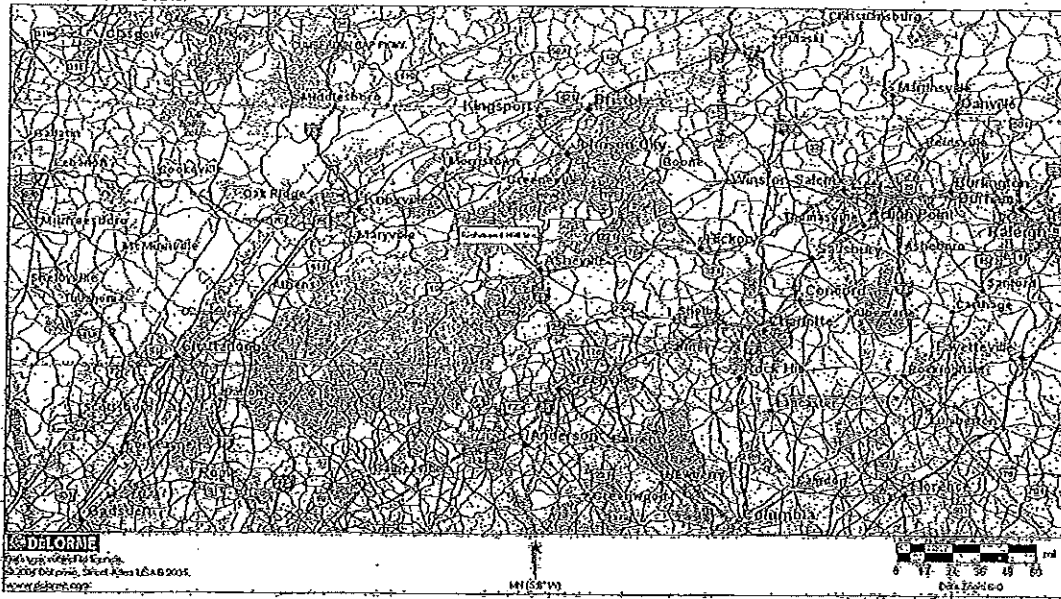
Wayne County	2007	2008	% Change	2007	2008	% Change
New Residential Permits (Total Units)	78	87	12%	117	103	-12%
Value of New Residential Permits	\$11,433,900	\$12,477,739	9%	\$12,477,739	\$11,433,900	-8%
Source: US Census Bureau						

Wayne County	2007	2008	% Change	2007	2008	% Change
New Residential Permits (Total Units)	11	11	0%	11	11	0%
Value of New Residential Permits	\$1,115,500	\$1,115,500	0%	\$1,115,500	\$1,115,500	0%
Source: US Census Bureau						

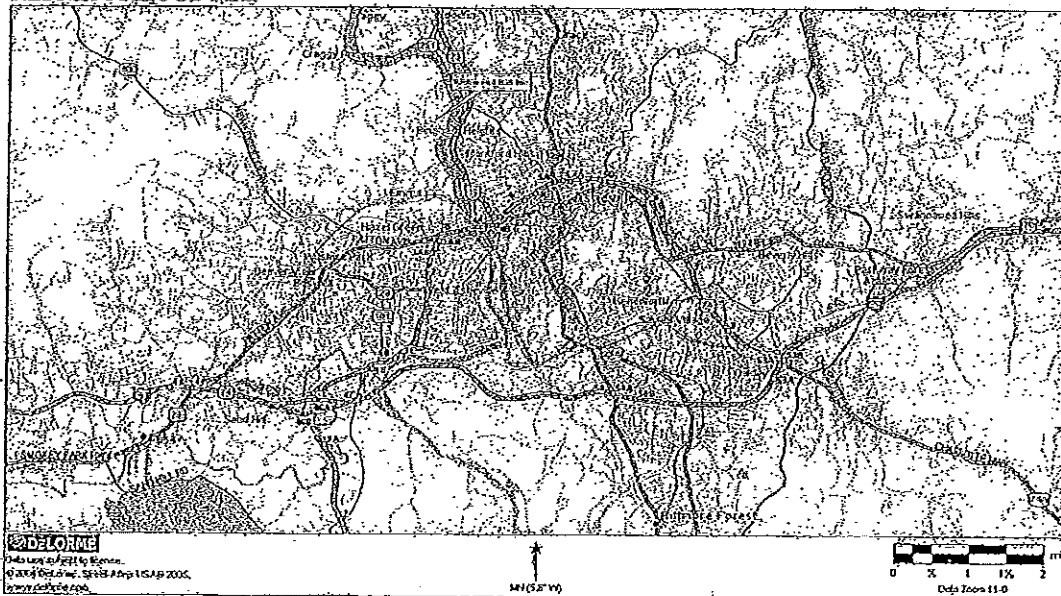
\* Four-county metro area, which includes Cherokee and Macon counties, \*\* Reporting from County of Wayne, which also includes Haywood and Henderson counties. Both for the purposes of this report will be reported 2007-2008 reporting on the reported agency.

*Richmond Hill Inn, Asheville, North Carolina*

**REGIONAL MAP**



**NEIGHBORHOOD MAP**



Richmond Hill Inn, Asheville, North Carolina

#### CHARACTERISTICS OF A BED AND BREAKFAST

The following information was obtained through one or more web site sources the appraisers have researched including the *American Bed and Breakfast Association* and *The Small Business Administration* websites. There are a wide variety of B&B accommodations available. In categorizing the different types of B&Bs, the American Bed and Breakfast Association looks primarily at the use of the entire building and its relation to the B&B activity that occurs there. The association believes this approach is consistent with the way insurance underwriters, legislators, code enforcers, and regulatory bodies are discussing and dealing with B&B issues. Differentiating between the different types of B&Bs remains one of the most important issues for the B&B industry as more legislation is being written to oversee its growth. The following definitions are used by the American Bed & Breakfast Association in its dealings with all public and private organizations and individuals: *B&B Homestay*: A private, owner-occupied residence in which the frequency and volume of B&B visitors are incident to the primary use of the building as a private residence. One to five guest rooms are made available to transient visitors and provide supplemental income for hosts. Breakfast is the only meal served and is included in the charge for the room. A review of current B&B zoning laws indicates that the majority of B&B Homestays continue to be unregulated or allowed primarily under zoning provisions for "Customary Home Occupations," subjecting them to outdoor sign restrictions; health, fire, and building code restrictions; and restrictions on the number of employees deemed necessary to protect residential neighborhoods from encroachment by business activities.

*B&B Inn*: A commercially licensed business operated in a building that primarily provides overnight accommodations to the public even though the owner may live on the premises. Guest rooms for a B&B Inn range from a minimum of four to a maximum of 20, although some believe the range is more like 5 to 25 rooms. Breakfast is the only meal served and is included in the room charge. The business is salable to a new owner, and is subject to all local, state, and federal regulations.

*Country Inn*: A commercially licensed establishment primarily known for its cuisine that is removed from planned, commercial areas and generally accessible for patronage only by automobile. Overnight accommodations are available and a full-service restaurant provides breakfast and dinner to overnight guests and/or the public. The number of guest rooms usually ranges from a minimum of four to a maximum of 20, although a number of Country Inns have more than 20 guest rooms. The business is salable to a new owner, and is subject to all local, state, and federal regulations.

*Small or historic hotels* are also recognized as a part of Bed and Breakfast accommodations. They are frequently thought of as establishments with twenty or more rooms that provide the service and privacy of a hotel in the setting of an inn with some individual attention from a host. The State of Michigan defines their historic hotels as 11 "at least fifty years old and associated with events or persons of significance in contributing to the broad patterns of history." Many embody the distinctive characteristics of a type, period, or method of construction in architecture. Most are located in historic districts and all have twenty-one or more rentable rooms. If breakfast is not included in the room price, it cannot be a true Bed and Breakfast.

The following information was obtained from SBDCNET 2004, web site address <http://sbdcnet.utsa.edu>. Bed and breakfasts are a niche segment of the travel industry. As part of this industry, bed and breakfasts are identified as a private residence that provides a room and a breakfast. While the terms "B&Bs" and "inns" are often used interchangeably, the Professional Association of Innkeepers International (PAII) differentiates between the two in that the former offers only breakfasts, while the latter may also offer lunch and dinner. The two most important factors of bed and breakfasts are their uniqueness and sense of social environment.

Highlights of the Eighth Biennial Bed-and-Breakfast & Country Inns PAII Industry Study of Operations, Marketing, and Finance for 2002 show the following:

Average number of rooms for bed and breakfasts is 8.5, up from 8 rooms in 2000

95% of respondents offer rooms with private baths

93% - 94% of inns/bed and breakfasts are non-smoking

Responding inns employ 4.6 people

42% of bed and breakfasts have meeting rooms



*Richmond Hill Inn, Asheville, North Carolina*

**Size of Business**

Most bed & breakfasts are operated by a family and thus have no employees. For this reason, limited data is available through the US Census. County Business Patterns report data on establishments with paid employees only. According to the US Census Bureau County Business Patterns, there were 3,042 bed & breakfast inns with paid employees (721191). These bed & breakfasts employed 19,665 employees in 2001 in the United States. According to a survey conducted by the PAII there were some 20,000 licensed inns in the United States in 2004.

**Advertising**

As bed and breakfasts are shifting their attention to the business traveler, so to have they have shifted the focus of their advertising to a more visible Web presence. Ray Coll, President of the Pittsburgh Bed & Breakfast Association states in an article published in the Pittsburgh Business Times that about 80 percent of business travelers find out about inns online. This is in keeping with a survey published in 2001 by CNNMoney online and conducted by B&B Getaways. The survey asked how guests find out about bed and breakfasts and reported the following results:

49% Internet

18% Word of mouth

6% Print advertising and travel guides

The survey also found that one-third of bed and breakfasts charge more than \$125 a night.

**Characteristics of Bed and Breakfast Operators**

One common characteristic of bed and breakfast operators is that the motivation for starting a bed and breakfast is their love of people. Another trait operators share is that most do not rely solely on the bed and breakfast as the primary source of income. A PAII survey revealed a national trend that 55% of owners surveyed depend on additional outside income.

**Impact of 9/11**

Among the many industries impacted by 9/11, the travel industry was probably the most affected. The subsequent economic recession further hampered the industry as there was a sharp decline in the number of people traveling. Interestingly enough, however, PAII reports that while most hotels suffered a 7% decline in occupancy, bed and breakfasts only saw a decline of 4%. Despite the drop in demand, there was an increase in the average daily rate paid by guests that had a net result of 2.8% growth in total revenues.

**The Business Traveler**

Traditionally, bed and breakfasts were seen as the perfect place for the weekend-getaway; however, this only accounted in occupancy for three nights of the week. With business travelers accounting for 52% of the lodging industry, bed and breakfasts are shifting their attention to these weekday travelers, adding amenities such as in-room data ports, high-speed Internet connections, DVD, and many other trappings sought by business travelers. More and more, bed and breakfasts are adding meeting room space to their facilities. Use of these facilities is often complimentary as bed and breakfasts are becoming preferred locations for retreats. A recent survey conducted by PAII found 42% of 800 respondents had meeting room space in 2002, compared to 28% in 2000.

**Rural v. Urban Bed and Breakfasts**

Rural bed and breakfasts get most of their business on the weekends and in the vacation season of April through September. Oftentimes the rural B&Bs serve as a weekend getaway. There are also rural B&Bs that are situated on wineries or operating ranches where guests may have access to wine tasting or offered horse rides. In addition, bed and breakfasts often partner with nearby attractions to offer vacation packages. In comparison, urban locales may be fully operational year round. A comparable advantage for urban B&Bs is partnering with local chambers of commerce and companies to offer meeting room space. As shown above, the number of B&Bs offering meeting rooms is growing and to meet business peoples' needs, may offer videoconferencing capacity.

**Considerations**

While there is no specific governing body regulating the bed and breakfast industry, they are often required to comply with federal, state, and local regulations. Of particular consideration are zoning regulations and local health and building codes. Additionally, as many of these bed and breakfasts are located in historic areas and buildings, it would behoove the operator to inquire with local historical associations on the significance of the property. Given these criteria, the subject property, when completed, can best be classified as a larger bed and breakfast hotel, appealing primarily to higher room rate clientele.

Richmond Hill Inn, Asheville, North Carolina

# SURVEY OF MARKET AREA

A detailed survey of the subject's competition market has performed and the properties that would be in direct competition with the subject have been identified and are listed on the following pages. A prerequisite to our survey was the need to identify those lodging facilities with which the subject compete. All the surveyed hotels thus fell into the historic hotel category. We will review competing facilities in the general area, but will concentrate only on the ones completing directly with the subject based upon surveys made or obtained by the appraisers.

## Historic Hotels

### Room Rate Survey

August 29, 2005

Name	City	State	Year Built	Rooms	Occupancy Rate	Room ADR
The Wright Inn B&B	Asheville	NC	1920	11	70%	\$ 225
The Lion & The Rose	Asheville	NC	1925	5	53%	\$ 181
Hill House	Asheville	NC	1904	9	50%	\$ 173
Pinecrest Bed & Breakfast	Asheville	NC	1905	4	59%	\$ 166
Beauforthouse	Asheville	NC	1894	11	64%	\$ 125
The Owl's Nest	Candler	NC	1885	8	67%	\$ 155
Inn on Church Street	Hendersonville	NC	1921	21	43%	\$ 119
The Dunhill Hotel	Charlotte	NC	1929	60	56%	\$ 184
Mid Pines Inn	Southern Pines	NC	1921	63	65%	\$ 183
Brookstown Inn	Winstn-Salem	NC	1836	71	48%	\$ 140
High Hampton Inn	Cashiers	NC	1933	120	63%	\$ 121
Wentworth Mansion	Charleston	SC	1887	21	68%	\$ 280
Beaufort Inn	Beaufort	SC	1897	25	62%	\$ 173
Kings Courtyard Inn	Charleston	SC	1853	37	67%	\$ 218

### Rate Statistics - Room ADR

Low \$ 119  
Median \$ 173  
High \$ 280

## Competition

The subject property will compete with other bed & breakfast inns within the subject's market area including Asheville and regional areas. The other bed & breakfast inns are included in our survey to illustrate the occupancy rates and room ADR's for this type of property.

The appraisers have included following information concerning visitor profiles for the Greater Asheville Area which is within the subject market area.

## GREATER ASHEVILLE AREA VISITOR PROFILE

The following description, provided by the Asheville Area Chamber of Commerce, Convention and Visitors Bureau, is a profile of the typical visitor to the Asheville area.

### Demographics

Median Age: 48

66% have household incomes of \$50,000 +.

63% have children under the age of 21.

34% have children under the age of 5.

70% are college graduates or above.

### Attitudes

Visitors and non-visitors have a favorable reaction to Asheville. Visitors are impressed with the variety that the Asheville area offers -- specifically, the combination of the mountains, history, heritage, the cities with their charms and comforts, and the wide variety of outdoor activities.

A possible barrier to visitation is the precept that the Asheville area is not well suited for vacationers with young children (under the age of 7 or 8).